

4242

LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants



EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/10/11

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT 1-2

MANAGEMENT'S DISCUSSION AND ANALYSIS 3-6

BASIC FINANCIAL STATEMENTS

STATEMENT OF PLAN NET ASSETS7

STATEMENT OF CHANGES IN PLAN NET ASSETS8

NOTES TO THE FINANCIAL STATEMENTS.....9-23

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS.....24

SCHEDULE OF EMPLOYER CONTRIBUTIONS25

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION26

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARD.....27-28

SCHEDULE OF FINDINGS AND RESPONSES

FINDINGS29-31

STATUS OF PRIOR YEAR FINDINGS.....32

SUMMARY OF AUDIT RESULTS33

LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Council
of the City New Orleans, Louisiana

We have audited the accompanying statement of plan net assets of the Employees' Retirement System of the City of New Orleans (The Plan), a component unit of the City of New Orleans, as of December 31, 2010 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Employees' Retirement System of the City of New Orleans as of December 31, 2010 and the changes in plan net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules on pages 24 to 25 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Continued,

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2011 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script, appearing to read "Robert S. Taylor".

New Orleans, Louisiana
June 12, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the financial performance of the Employees' Retirement System of the City of New Orleans. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the year ended December 31, 2010.

Financial Highlights

- The plan net assets for the current year totaled \$334 million which reflected an increase as compared to the previous year which totaled \$310 million. The increase in plan net assets totaled \$24 million or 7% for the current year.
- Net Appreciation in fair value reflected a balance of \$40.4 million for the current year. This balance accounts for the majority of the increase in plan net assets and represents an increase of \$15.4 million as compared to the previous year net appreciation of \$55.8 million.
- The Plan's Annual Required Contribution (ARC) remained relatively constant as compared to the prior year. The ARC for 2011 reflected \$20.8 million while the prior year reflected \$21.2 million.
- Total contributions to the Plan increased slightly from the previous year level of \$17.8 million to the present year level of \$18.6 million. Employer contributions increased by 3% while employee contributions decreased by 2%. The annual required contribution (ARC) levels are established by the Plan's actuary report which is effective dated January 1, 2011.

Overview of the Financial Statements

An explanation of the financial statements and schedules that present the financial status of the Plan is as follows:

- Statement of Plan Net Assets – This statement reports the Plan's assets, liabilities, and resultant net assets as of December 31, 2010.
- Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar year 2010, categorically disclosing the additions to and deduction from plan net assets. The net increase to plan assets on this statement supports the change in net assets on the Statement of Plan Net Assets between the years ended 2009 and 2010.

Continued,

- **Notes to the Financial Statements** – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements.
- **Required Supplementary Information** – The required supplementary information consists of several schedules that show information related to funding progress, contributions to the Plan and other certain actuarial information.

A comparative analysis of the investments is as follows:

	2009	2010
Cash	\$ 2,972,389	\$ 3,755,022
Receivable		
Contributions	717,997	482,493
Accrued Interest & Dividends	695,491	161,028
Accounts Receivable		
Total Receivables	<u>1,413,488</u>	<u>643,521</u>
Investments:		
Market Prices Quoted in Active Markets:		
Cash & Cash Equivalents	9,470,635	7,448,341
Equities:		
Domestic	90,601,778	96,629,513
Foreign	33,726,788	62,784,240
Large Cap Growth Fund	<u>25,166,936</u>	<u>20,032,614</u>
	<u>149,495,502</u>	<u>179,446,367</u>
Fixed Incomes:		
U.S. Government Obligations	8,519,674	7,116,385
U.S. Government Agency Obligations	22,363,391	1,376,212
Corporate Obligations	45,431,685	53,750,409
Other Fixed Income Investments	<u>29,844,677</u>	<u>29,981,939</u>
	<u>106,159,427</u>	<u>92,224,945</u>
Market Prices Determined by Other Methods:		
Broadmarket Funds	8,151,395	9,591,225
Investment in Fund of Funds	22,424,590	22,581,527
Homeland Security Fund	1,196,154	899,599
Fixed Income and Equity Hedge Funds	5,222,313	5,308,317
Investment in Private Equities Funds	2,344,821	10,872,796
Investment in Real Estate Funds	<u>1,835,622</u>	<u>2,084,330</u>
	<u>41,174,895</u>	<u>51,337,794</u>
Total Investments	<u>\$ 306,300,459</u>	<u>\$ 330,457,447</u>

Continued,

Additions to Plan Net Assets

Additions to the Plan Net Assets were derived primarily from contributions from employees and employers in addition to investment income. Net investment income decreased by \$19 million or 31% compared to prior year. The balance for 2010 reflected \$42.4 million while the year 2009 was stated at \$61.4 million. The decrease in net investment income was a reflection of the Plan's investment portfolio performance as compared to the prior year.

The Plan's funding of employer contributions resulted in a Net Pension Obligation (NPO) totaling \$18.4 million as of December 31, 2010. This NPO resulted primarily from a shortfall of employer contributions made by the City to the Plan as compared to the Annual Required Contributions (ARC) as determined by the Plan's actuary.

Deductions From Plan Net Assets

Deductions from plan net assets include retirement, disability, death, and survivor benefits. These deductions reflected an increase of \$1,896,632 or 5.4% as compared to the prior year.

A summary of Plan additions and deductions are as follows:

	<u>2010</u>	<u>2009</u>
Total Additions	\$ 61,092,098	\$77,757,205
Total Deductions	<u>(36,838,681)</u>	<u>(34,943,049)</u>
Net Increase/(Decrease) in Plan Net Assets	<u>\$ 24,253,417</u>	<u>\$42,814,156</u>

Requests for Information

This management's discussion and analysis is designed to provide a general overview of the finances of the Employees' Retirement System of the City of New Orleans for interested parties. Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to the Plan Administrator, City of New Orleans and the Employees Retirement System, 1300 Perdido Street, New Orleans, LA 70131.

BASIC FINANCIAL STATEMENTS

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2010

Cash	<u>\$ 3,755,022</u>
Receivable	
Contributions	482,493
Accrued Interest & Dividends	161,028
Accounts Receivable	
Total Receivables	<u>643,521</u>
Investments:	
Market Prices Quoted in Active Markets:	
Cash & Cash Equivalents	<u>7,448,341</u>
Equities:	
Domestic	96,629,513
Foreign	62,784,240
Large Cap Growth Fund	20,032,614
	<u>179,446,367</u>
Fixed Incomes:	
U.S. Government Obligations	7,116,385
U.S. Government Agency Obligations	1,376,212
Corporate Obligations	53,750,409
Other Fixed Income Investments	29,981,939
	<u>92,224,945</u>
Market Prices Determined by Other Methods:	
Broadmarket Funds	9,591,225
Investment in Fund of Funds	22,581,527
Homeland Security Fund	899,599
Fixed Income and Equity Hedge Funds	5,308,317
Investment in Private Equities Funds	10,872,796
Investment in Real Estate Funds	2,084,330
	<u>51,337,794</u>
 Total Investments	 <u>330,457,447</u>
 Total Assets	 <u>334,855,990</u>
Liabilities	
Due to Terminated employees	154,723
Escrow	5,399
Accounts Payable	3,298
Accrued Management and Custodial Fees	283,722
Total Liabilities	<u>447,142</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 334,408,848</u>

The accompanying footnotes are an integral part of this financial statement.

THE EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

ADDITIONS	
Contributions:	
Employer	\$ 13,031,810
Employee	3,781,490
Transfers from Sw&B	67,507
Payments for Military Services	5,675
Other Agencies	1,608,053
Transfers from State System	<u>111,640</u>
Total Contributions	<u>18,606,175</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	40,451,705
Interest and Dividends	3,216,514
Commision Recapture	43,777
Securities Litigation	4,454
Securities Lending	
Total Investment Income	<u>43,716,450</u>
Less: Investment expense	<u>(1,230,527)</u>
Net investment income	<u>42,485,923</u>
Total Additions	<u>61,092,098</u>
Deductions	
Retirement Allowances	13,842,159
Ordinary Disability Retirements	1,550,269
Accidental Disability Retirement	545,188
Separation Retirements	901,883
Refunds to Members	1,060,215
Retierment Allowance Option II, III, IV	10,827,095
Transfers to the State Retirement System	410,651
Transfers to the Sewerage and Water Board	132,743
Transfers to Firefighters	25,746
Transfer to M.P.E.R.S.	443,989
Lump Sum Benefits Due to Death of Members	106,964
Option I Death Benefits	12,217
Cost of Living Benefits	3,269,131
Drop Withdrawal & Drop Annuities	762,476
Policy 4 Withdrawals & Policy Annuities	2,548,447
Lost Contact	1,563
Operating Expenses	23,334
Administrative Expenses	374,611
Total Deductions	<u>36,838,681</u>
Net Increase	<u>24,253,417</u>
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	310,155,431
End of Year	<u>\$ 334,408,848</u>

The accompanying footnotes are an integral part of this financial statement.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

I. DESCRIPTION OF THE SYSTEM

A. PLAN DESCRIPTION

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS (the Plan) is a Defined Benefit Pension Plan established under the laws of the State of Louisiana. The City Charter provided that the Retirement Ordinance (Chapter 114 of the Code) continues to govern and control the Retirement System under the management of the Board of Trustees, and also for changes in the Retirement System by council action, subject to certain limitations for the purpose of providing retirement allowances, death, and disability benefits to all officers and employees of the parish, except those officers and employees who are already or may hereafter be included in the benefits of any other pension or retirement system of the city, the state or any political subdivision of the state.

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS became operative on July 1, 1947. It is supported by joint contributions of the City and employee members and income from investments. The City makes contributions for members during active service as well as for periods of service of members employed prior to July 1, 1947. In this way, reserves are accumulated from the city and employee contributions.

The general administration and the responsibility for the proper operation of the Retirement System and for making effective the provisions of the Retirement Ordinance are vested in the five member Board of Trustees of the Retirement System.

At December 31, 2010, EMPLOYEES' RETIREMENT SYSTEM membership consisted of

Retirees and beneficiaries currently receiving benefits	2,020
Terminated employees entitled to benefits but not yet receiving them	<u>78</u>
Total	<u>2,098</u>
Active Participants	
Fully Vested	1,194
Not Vested	<u>1,096</u>
Total Active Participants	<u>2,290</u>
Total Participants	<u>4,388</u>

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

The City of New Orleans requires membership in the EMPLOYEES' RETIREMENT SYSTEM for all City of New Orleans' regularly employed persons. Membership and eligibility information is summarized below:

Membership

1. Employees hired on or after July 1, 1947, who become members as a condition of employment, except for those over 65, unless they have 10 years prior service.
2. Employees hired before July 1, 1947 became members, unless they elected not to join.
3. Officials elected or appointed for fixed terms, however, membership is optional.
4. All officers and employees of various judicial and parochial offices of the parish, except those covered by another system and those for whom no contributions are made by respective offices are eligible.
5. For employees of the French Market Corporation, membership is optional; eligibility is contingent on not having attained age 55.
6. Effective November 1, 1993, membership includes the full-time employees of the Coroner's Office.
7. Effective April, 1, 1997, membership includes the full-time employees of the District Attorney's Office for the Parish of Orleans.

Retirement

Under the System, employees with 30 years of service, or who attain age 60 with 10 years of service, or age 65 and 5 years of service are entitled to a retirement allowance. Effective January 1, 2002 any member whose age and service total 80 may retire with no age restriction. The benefits to retirees consist of the following:

1. An annuity, which is the actuarial equivalent of the employee's accumulated contribution at the time of retirement; plus

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued,

2. Effective for members retiring on or after January 1, 2002, an annual pension, which, together with above annuity provides total retirement allowance equal to 2.5% of average compensation times first 25 years, plus 4% of average compensation times creditable service over 25 years.
3. Effective for members retiring before 2002, but on or after January 1, 1983, an annual pension, which, together with above annuity, provides total retirement allowance equal to 2% of average compensation times first 10 years, plus 2.5% of average compensation times next 10 years, plus 3% of average compensation times next 10 years, plus 4% of average compensation times creditable service over 30 years.
4. Effective January 1, 1983, additional pension equal to 2% of \$1,200 times first 10 years, plus 2.5% of \$1,200 times next 10 years, plus 3% of \$1,200 times next 10 years, plus 4% of \$1,200 times service over 30 years. Ceases at 62 or at eligibility for Social Security, whichever comes first. Effective January 1, 2002, the \$1,200 exclusion will not apply.
5. Additional pension for member who reaches age 65 with 20 or more years and the retirement allowance under (1) and (2) above is less than \$1,200 per year; to produce total retirement allowance of \$1,200 per year.
6. Effective January 1, 1982, for service retirement prior to age 62 with less than 30 years of Service, (3) and (4) above are reduced by 3% for each year below 62. However, effective January 1, 1996 this reduction is not made if employee has at least 30 years of Service, Effective January 1, 2002 no reduction if age and service total at least 80.
7. **Maximum Benefit**
Benefit not to be greater than 100% of average compensation, unless member has already accrued a larger benefit as of April 1978.
8. **Minimum Benefit**
Effective June 1, 1999, benefit of \$300 per month for retirees with 10 years of service at retirement.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued,

9. **Form of Benefit**

Modified cash refund annuity - If a member dies after retirement and before receiving the amount of his accumulated contributions in annuity payments, then the lump sum balance of his contributions is paid to beneficiary.

10. **Cost-of-Living**

Board of Trustees retains excess over average 3.5% interest earnings to provide Cost-of-Living increases in benefit to retirees (past or future) not to exceed 3% of original benefit per each year of retirement. Effective January 1, 2001, additional one-time increase of 1% times member's or beneficiary's current monthly benefit times whole calendar years from date benefit commenced.

Death Benefit

Members that expire during active service are eligible for death benefits. The benefits represent the members accumulated plan contributions and are paid to the member's beneficiary. Additional information is as follows:

1. If a member has three years creditable service, additional lump sum benefit equal to 25% of earnable compensation for year preceding death, plus 5% of such earnable compensation for each additional year of creditable service (benefit not to exceed compensation made before death).
2. If, at date of death, member was eligible for retirement and leaves Surviving Spouse, Surviving Spouse shall be eligible to elect either Option number 2 or lump sum refund of employee's contributions offset by Worker's Compensation benefits.
3. If, at date of death, member was ineligible for retirement, but was at least 55 years of age and had 10 or more years of creditable service or was under age 55 and had at least 20 years of creditable service, then surviving spouse may elect to receive benefit equal to an actuarially reduced amount based upon the members age and years of creditable service. Benefit to cease when surviving spouse reaches age of eligibility for Social Security.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued,

Separation Benefits

1. Effective January 1, 2002, a member who separates with 5 years of Creditable Service may allow his accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 65.
2. Prior to January 1, 2002, withdrawal with 10 years of Creditable Service prior to separation, member may allow accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 60 (subject to reduction if retirement is elected before age 62). If death occurs before retirement, return of accumulated contributions with interest.
3. Upon withdrawal without 5 years Creditable Service, employee is entitled to return of his accumulated contributions with interest or may allow contributions to remain on deposit for maximum of five years. (In case of employee's death, then accumulated contribution plus interest are paid to beneficiary.)
4. If employee re-enters after receipt of refund and continues service thereafter for at least three years, he may repay amount of refund plus the amount of employer contributions, with compound interest, to receive prior creditable service again.

Disability

Any amounts which may be paid or payable under the provisions of any Workmen's Compensation Statute or similar law to a member or to a dependent or a member on account of accidental disability or accidental death shall, in such a manner as the Board shall approve, be offset against and payable in lieu of any benefits payable out of the funds provided by the City under the provisions of the Retirement system on account of the same accidental disability or on account of death.

Ordinary Disability Retirement

Upon written application of a member in active service or of the head of his department, any member who has had 10 or more years of creditable service may be retired by the Board on an ordinary disability retirement allowance if a physician nominated by the Board shall certify that the member is mentally or physically totally incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that the member should be retired.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued,

Upon retirement for ordinary disability, a member will receive a service retirement allowance, if eligible, otherwise the member will receive a disability retirement allowance, which will consist of:

- a. An annuity which shall be the actuarial equivalent of the employee's accumulated contributions at the time of retirement; and
- b. An annual pension, which together with the annuity in (a), shall be 75% of the service allowance that would have been payable upon service retirement at the age of sixty-five, had the member continued in service to the age sixty-five. Such allowance is to be computed on the average compensation, however, that the minimum annual retirement allowance will be \$300 per year.

Accidental Disability Retirement

Upon the application of a member or the head of his department, any member whom the Board finds has been totally and permanently incapacitated for duty as the natural and proximate result of an accident sustained in service as an active member and occurring while in the actual performance of his duty at some definite time and place without willful negligence on his part may be retired by the Board; provided, that a physician nominated by the Board will certify that the member is mentally or physically totally incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that the member should be retired. Upon retirement for accidental disability, a member will receive a service retirement allowance, if eligible, otherwise he will receive an accidental disability retirement allowance, which will consist of:

- a. An annuity which is the actuarial equivalent of his accumulated contributions at the time of retirement; and
- b. An annual pension equal to the difference between his annuity and 65% of his earnable compensation

Any employee whose withdrawal from active service occurs after he/she has obtained at least 5 years of creditable service, may remain a member of the Retirement System by permitting his accumulated contributions to remain on deposit with the System.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued,

Should the member have served at least 10 years before such separation, he will be entitled to receive a full service retirement after age sixty which he may elect, subject to the reductions applicable to retirement before the age of sixty-two, which will be based upon the amount earned and accrued at the date of withdrawal from service.

Upon withdrawal without 10 years of creditable service, the employee is entitled to the return of his accumulated contributions with interest or the employee may allow contributions to remain on deposit for a maximum of five years.

Reciprocal Transfers

Effective July 16, 1974, provisions were made for reciprocal transfers of service and funds between this System and the Employees' Retirement System of the Sewerage and Water Board of New Orleans. In the event an employee transfers from one employer to the other, service credits are transferred from the employee's previous account plus earned interest and all employer contributions, plus agreed-upon interest, are transferred.

A detailed plan agreement has been published and made available to all plan participants. Their agreement contains all information regarding the plan's benefits, amendments, actuarial assumptions and contribution requirements.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with the standards established by the Government Accounting Standards Board (GASB). The following are the significant accounting policies followed by the plan:

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. Contributions are recognized as revenue in the period in which employee services are performed. Interest income is recognized in the period earned and dividends are recognized in the period declared.

Method Used to Value Investments - Quoted market prices are used to value investments, if available. Short-term investments are valued at cost which approximates market. The investment securities that have no quoted market price are recorded at estimated fair value. More information regarding these alternative investments is presented at Note G. Investment income is recognized as earned gains and losses on sales and exchanges of fixed income securities and recognized on the transaction date.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued,

C. PENSION BENEFIT OBLIGATION

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date.

The measure is intended to help assess the funding status of the Employees' Retirement System on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employees' retirement systems.

The pension benefit obligation was determined as part of the actuarial valuations as of January 1, 2011. Significant actuarial assumptions used in the latest valuation are as follows:

- Life Expectancy of Participants - 1971 Group Annuity Mortality Table.
- Retirement Age Assumptions - Based on the results of the 1990-1995 periodic actuarial experience study.
- Asset Valuation Method – Adjusted Market Value
- Investment Return – 7.75%
- Cost Method – Entry Age Normal Cost Method
- Projected Salary Increases – 5% compounded annually.

Based upon the above assumptions the actuarially determined pension benefit obligation (PBO) is as follows:

Active Participants	\$ 165,216,267
Inactive Participants	320,004,416
Grand Total	\$ 485,220,683

Additional information regarding the funded progress of the Plan is presented in the Required Supplementary Information section of this report and the accompanying notes.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued.

D. DESCRIPTION OF ACTUARIAL COST METHOD

Under the Entry Age Normal Cost Method, the normal cost of the plan is designed to be a level percentage of payroll, calculated on an aggregate basis, spread over the entire working lifetime of the participants. The future working lifetime is determined from each participant's hypothetical entry age into the plan assuming the plan had always been in existence, to his expected retirement date. The actuarial accrued liability is the amount of total liability not covered by future entry age normal costs. This amount is composed of the actuarial value of benefits already funded (assets) and those not yet funded (unfunded actuarial liability).

The plan's funding cost for the year is the sum of the Entry Age Normal Cost and the amount necessary to amortize the remaining unfunded actuarial liability as of the valuation date over the adopted amortization period.

Governmental Accounting Standards Board (GASB) Statements 25 and 27 permit the amortization basis to be "open" (that is, a constant number of years) or "closed" (that is, with the remaining period reducing by one each year). GASB 25 and 27 further permit either a level dollar amortization method (more conservative) or a method based on increasing valuation payroll (less conservative). Beginning with this January 1, 2011 actuarial valuation, both the actuarial cost method and a new amortization basis has been established. The Frozen Initial Liability Method has been replaced by the Entry Age Normal Cost Method. "The former amortization basis used a level dollar amortization for a ten (10) year "closed" amortization period from January 1, 2008 through December 31, 2017. This has been replaced by a level dollar amortization for an "open" ten (10) year amortization period effect on each valuation date.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued,

E. CASH

As of December 31, 2010, the Employees' Retirement System had the following cash accounts and related FDIC insurance and/or other types of collateral to secure the plans cash accounts:

Deposits (bank balance)	\$3,789,996
Cash Equivalents	\$7,448,341

The Fund's bank account balances were entirely collateralized by pledged government securities of the depository institution held in the name of the System in addition to federal depository insurance. Cash equivalents were entirely comprised of money market funds on deposit by the custodian bank. These balances represent un-invested cash on hand with each respective investment manager. The balances are swept daily to the custodian account where they are invested in money funds. The money market fund is collateralized by underlying corporate and government securities.

F. NET PENSION OBLIGATION (NPO)

The Plan experienced substantial increases in the annual required contribution (ARC) for each of the years ended December 31, 2007, 2008 and 2009 based upon the actuarial determinations for each respective year. In addition, the Plan's annual actuarial valuation is based upon a beginning of the year valuation. Accordingly, the employer contribution level has a one-year lag period relative to the setting of the employer contribution level by the City of New Orleans and the ARC as established by the actuary for that respective year. The ARC for the current period has stabilized and reflects a small decrease from the prior year of \$21.2 million to its present level of \$20.8 million.

The three year trend of an increasing ARC, combined with the one-year lag period mentioned above has contributed to a net pension obligation (NPO) estimated at \$18,424,457. This NPO is determined in accordance with GASB 27. The current year's addition to the NPO totaled \$8,981,340. The additions to the NPO included accrued interest totaling \$731,842.

The NPO is defined as the cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability or asset at transition, if any. The NPO substantially represents cumulative shortfalls in employer contributions to the Plan by the City of the year ended December 31, 2010 as compared to the Annual Required Contribution (ARC) as computed by the Plan's Actuary. As previously noted these shortfalls are attributable to timing differences between the City's receipt of the Actuary's report and the funding level set for the current year's contribution to the Plan by the City.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

G. INVESTMENTS

Investments of the System are reported at fair market value, where published values are available in actively traded markets. Estimated values are reported where published values are not available. The following table presents the reported values of investments at December 31, 2010. Investments that represent 5% or more of the Plan's net assets are separately identified.

Investments:

Market Prices Quoted in Active Markets:

Cash & Cash Equivalents	\$ 7,448,341
-------------------------	--------------

Equities:

Domestic	96,629,513
Foreign	62,784,240
Large Cap Growth Fund	20,032,614
	179,446,367

Fixed Incomes:

U.S. Government Obligations	7,116,385
U.S. Government Agency Obligations	1,376,212
Corporate Obligations	53,750,409
Other Fixed Income Investments	29,981,939
	92,224,945

Market Prices Determined by Other Methods:

Broadmarket Funds	9,591,225
Investment in Fund of Funds	22,581,527
Homeland Security Fund	899,599
Fixed Income and Equity Hedge Funds	5,308,317
Investment in Private Equities Funds	10,872,796
Investment in Real Estate Funds	2,084,330
	51,337,794

Total Investments	330,457,447
-------------------	-------------

Total Assets	\$ 334,855,990
--------------	----------------

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW
ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Continued,

Alternative Investments

In recognition of the increasing opportunities available in today's dynamic investment universe to seek returns that may be less correlated to traditional broad equity and fixed income markets, the Board may allocate up to 20% of the Aggregate Fund to alternative investments. The Board recognized that alternative investments may contain a high level of risk due to, but not limited to, such factors as potential liquidity constraints, restrictions on the ability to withdraw invested capital, concentrated positions, short positions, leverage, high volatility and the marketability of such investments. These investments include, but are not limited to real estate, private equity, options and derivatives. As of December 31, 2010, alternative investments were \$51,337,794 or 15.5% of the total investments.

Quoted market prices are generally not available for these alternative investments. Accordingly, the recorded amounts represent estimated fair values. The System engages independent investment managers to advise and execute trades regarding alternative investments. These firms monitor the estimated valuations based upon receipt and review relevant financial data and periodic independent audits. The estimated market values are forwarded to the Plan's custodian financial institution on a monthly or quarterly basis. These market values are updated by the Plan's custodian. These updated values are included within these financial statements.

Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. Based upon the System's investment objectives, time horizon, risk tolerances and performance expectation of selected asset classes, the asset allocation guidelines for the fund includes maximum limits on positions held within each asset class. These limits are set by the Board of Trustees in the System's investment policy as follows:

Equities	65%
Fixed Income	55%
Alternative Investments	20%

As of December 31, 2010 each of the aggregate asset classes reflected positions within these guideline limits.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE
CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

Continued,

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following are the credit ratings of the Plan's investments in publicly traded securities as of December 31, 2010:

ECONOMIC SECTORS

U.S. Treasury	\$ 10,042,948
U.S. Agency	1,385,632
AAA	9,616,433
AA	15,894,166
A	12,269,111
BAA	11,698,312
Other	<u>31,318,343</u>
	<u>\$ 92,224,945</u>

The System has no investment policy regarding credit risk on fixed income mutual funds. Obligations guaranteed or explicitly guaranteed by the U.S. Government are not considered to have credit risk. The System's investment policy provides that fixed income securities may include U.S. Treasury obligations, obligations of government sponsored enterprises, federal agency obligations, corporate bonds, debentures, asset backed securities, convertible securities, preferred stock commercial paper, and commercial bank certificates of deposit. All investments in interest-bearing nonconvertible obligations of corporations must be rated within the six highest ratings of a major rating service at the time of purchase (minimum B or higher).

Custodial Credit Risk

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

At December 31, 2010, the System was not exposed to custodial credit risk since the investments are held in the name of the System. The Fund has no investment policy regarding custodial credit risk.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE
CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

Continued,

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2010, the Fund had the following investments in long-term debt securities.

<u>BOND MATURITIES</u>	<u>MARKET VALUE</u>
0 - 2 Years	\$ 6,686,132
2 - 3 Years	2,109,272
3 - 4 Years	5,791,777
4 - 5 Years	3,550,681
5 - 6 Years	6,082,338
6 - 8 Years	21,356,186
8 and Above Years	34,123,249
Non Categorized	12,525,310
	<u>\$ 92,224,945</u>

The System's overall investment policy sets forth an investment time horizon of greater than ten years for the aggregate fund however no specific limitations are placed upon the maturities for fixed income securities.

Appreciation/(Depreciation)

During 2010, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$ 40,451,705. The detail of is as follows:

	<u>Net Appreciation/ Depreciation</u>
Fixed Income Securities	\$ 9,603,782
Equities	28,567,193
Other Assets	2,280,730
	<u>\$ 40,451,705</u>

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE
CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

H. TREND INFORMATION

Trend information, which gives an indication of the progress made in accumulating sufficient assets to pay pension benefits when due, are presented on pages 24 and 25.

I. COST-OF-LIVING BENEFITS

Historically, the Board of Trustees had adopted the policy of maintaining a "Cost of Living Account" representing a "reserve" to provide for cost of living payments to retirees and beneficiaries from excess realized investment earnings. In the January 1, 1996 and prior actuarial valuations, this reserve was used as an offset to assets in developing the actuarial value of assets. Beginning with the January 1, 1997 and in subsequent actuarial valuations, this reserve was included with other actuarial liabilities presented in the plan actuary's report. Effective with the January 1, 2007 actuarial valuation, the Board eliminated the inclusion of this "reserve" in the system actuarial liabilities in favor of the direct demonstration of the amount available for cost of living payments as described below. The "reserve" was intended to represent the amount available for such cost of living payments pursuant to Section 114-204 (7) of the New Orleans Code governing System benefits.

The Board has adopted a revised policy of determining the amount available pursuant to the foregoing section as follows. "The Board has made the interpretation that "interest earnings" represents cumulative market-to-market investment performance of the fund and that "in excess of an average 3.5 percent" means cumulative investment performance in excess of 3.5% compounded annually. The plan's actuary's report reflects cumulative investment performance of 3.5% compounded annually would have resulted in total system assets of \$82,475,300 as of December 31, 2010 based on the assumption that there had not been any "one time" cost of living payments during the 22 year period considered. Actual fund performance during the 22 year period considered resulted in a market value of \$334,408,848 after recognition of the "one time" cost of living payments actually made.

J. COSTS OF PLAN ADMINISTRATION

The City of New Orleans absorbs significant costs of the plan administration. Those costs include salaries, fixed assets, office supplies etc. for the department administering Plan operations. However, there are administrative expenses paid by the Plan that are associated with travel, conferences for Board members, attorney fees, investment consultants and actuary fees.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

REQUIRED SUPPLEMENTARY INFORMATION

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
HISTORICAL TREND INFORMATION**

SCHEDULE OF FUNDING PROGRESS

Year	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Percent Funded by Employer (3)	Unfunded AAL (UAAL) (4)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (4/5) (6)
1992	174,340,893	174,852,648	99.70	511,755	70,163,161	0.01
1993	194,704,398	180,044,150	108.14	*(14,660,248)	65,578,056	*(22.35)
1994	205,126,988	185,685,601	110.47	*(19,441,387)	66,910,493	*(29.05)
1995	221,783,014	226,348,016	97.98	4,565,002	68,492,113	6.66
1996	278,446,227	247,902,452	112.32	*(30,543,775)	70,480,255	*(43.34)
1997	319,142,011	274,538,774	116.00	*(44,603,237)	76,090,614	*(59.00)
1998	355,566,389	309,660,485	114.00	*(45,905,904)	76,199,531	*(60.00)
1999	375,180,736	310,855,758	120.69	*(64,324,978)	75,663,274	*(85.01)
2000	371,909,534	298,945,269	124.40	*(72,964,265)	76,248,758	*(95.69)
2001	374,022,902	301,213,454	124.17	*(72,809,448)	83,379,038	*(87.32)
2002	376,843,982	343,571,841	109.68	*(33,272,141)	78,048,020	*(42.63)
2003	402,503,774	386,747,332	104.07	*(15,756,442)	87,713,132	*(17.96)
2004	412,486,855	418,856,855	98.48	16,288,182	92,665,909	17.58
2005	412,970,222	391,570,570	105.50	(13,077,927)	63,621,521	20.60
2006	403,370,965	378,793,753	106.50	9,717,711	52,985,316	18.00
2007	398,490,554	423,794,409	94.0	50,275,852	63,456,911	79.20
2008	381,604,003	450,942,554	84.10	96,947,970	78,846,321	122.95
2009	387,146,017	478,551,973	80.89	50,329,902	89,366,260	56.30
2010	384,105,611	485,220,683	79.20	127,398,531	85,926,577	148.30

Bracketed amounts represent overfunded actuarial accrued liability (AAL).

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
Schedule of Employer Contributions

Year	Annual Required Contribution	Percentage Contributed
1994	9,274,320	104%
1995	9,238,967	102%
1996	10,629,702	102%
1997	9,858,968	110%
1998	9,063,207	104%
1999	8,739,480	80%
2000	6,162,035	90%
2001	6,710,305	106%
2002	6,369,982	163%
2003	6,235,328	100%
2004	7,168,281	100%
2005	7,592,093	54%
2006	6,396,358	100%
2007	5,780,008	133%
2008	9,427,704	53%
2009	17,066,353	74%
2010	21,281,308	61%
2011	20,850,837	0%

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2010

This information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

- Valuation date: January 1, 2011
- Actuarial cost method: Entry Age Normal Cost Method
- Amortization period: 10 years
- Asset valuation method: Adjusted Market Value
- Investment rate of return: 7.75%
- Projected salary increases: 5.0%



LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Council
of the City of New Orleans, LA

We have audited the accompanying financial statements of the Employees' Retirement System of the City of New Orleans (the Plan) as of December 31, 2010 and for the year then ended, and have issued our report thereon dated June 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Plan, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below we identified certain deficiencies in internal control that we consider to be material weaknesses.

Continued,

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the finding listed in the Schedule of Findings and Responses as findings 10-01 and 10-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Plan's response to the findings listed in the Schedule of Findings and Responses were not available and is accordingly not a part of this report.

This report is intended solely for the information and use of the audit committee, management of the Plan, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Although, the intended use of these reports may be limited, "Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document."



Luther Speight & Company
June 12, 2011

SCHEDULE OF FINDINGS AND RESPONSES

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010

FINDING 10-01: PLAN'S MANAGEMENT OF THE RISKS PRESENTED BY
ALTERNATIVE INVESTMENTS NOT ADEQUATE

CONDITION

The Plan reported portfolio values for alternative investments of \$51.3 million as of December 31, 2010. This reported value represents 15.5% of the entire portfolio market value at year-end. The investments represent a variety of investment strategies, however the underlying securities are not in the custody of the Plan's trustee financial institution. In addition the market valuations for these securities are not based upon published values. Accordingly the Plan's investments in the alternative category bear a higher risk.

Furthermore, a survey of defined benefit plans recently published by the U.S. General Accounting Office (GAO) indicated that defined benefit plans within the United States as a universe reflected exposure to alternative investments averaging 4% to 5%. In addition, of all the Plans surveyed of comparable size to MPERS, only 16% of those plans invested in alternative investments. Considering the GAO survey results and the Plan's present exposure to alternative investments of 15% as of December 31, 2010, it appears the Plan's portfolio risk profile is within the higher-end of its peer group as it relates to alternative investments.

This higher valuation risk should be partially mitigated by the Plan's receipt and review of independent audit reports related to the respective fund managers and other management due diligence procedures related to monitoring these investments. Due to the lack of published market valuation data, these audit reports and the other related due diligence procedures provide crucial evidence in support of any potential adverse changes in alternative investment values.

Our examination disclosed that the Plan's portfolio included 27 investments with fund managers in the alternative strategies. We further noted however that little or no qualitative or comparative analysis had been performed or documented related to the audit reports received and their bearing on the valuations placed on the Plan's investments by the respective managers.

CAUSE

The Plan did not have procedures or staffing designated to perform the detailed analysis of the independent audit reports and relate the analysis to the values reported by the alternative fund managers.

Continued,

EFFECT

The lack of qualitative or comparative analysis of the independent audit reports and the accompanying financial statements does not reduce the risk that the valuations reported by the alternative managers may not be reduced to an acceptable level. The Plan's ability to fulfill its fiduciary responsibility related to management of the risks could be adversely impacted.

RECOMMENDATION

We recommend that the Plan update its procedures related to the receipt and review of the independent audit reports from the alternative investment managers to include qualitative and comparative analysis of investment's financial position and results of operations and cashflows and other relevant financial and market related data.

MANAGEMENT'S RESPONSE:

Not Available

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010

FINDING 10-02: PLAN'S ALTERNATIVE INVESTMENT VALUATION
REPORTING NOT ADEQUATELY MONITORED

CONDITION

The Plan's alternative investment valuations are reported by the respective fund manager to the Plan's custodian financial institution for inclusion in the investment trust statement reporting. We reviewed the alternative investment valuation reporting and review procedures and noted that procedures and controls in place did not include documentation of the tracking of the timeliness of valuation updates by the fund managers.

Our examination showed that of the Plan's 27 alternative managers, 20 were scheduled to update investment values on a monthly basis while the remaining were scheduled for quarterly updates. Documentation indicating the most recent valuation dates was not on file.

CAUSE

The Plan's policies and procedures did not require documentation of the tracking of the timeliness of updated investment values reported by the alternative managers.

EFFECT

Since the alternative investment values are not publically available, delinquent reporting of those estimated values by the respective managers could allow adverse changes affecting the investment valuations not to be reported to or acknowledged by the Plan's staff and Board on a timely basis. We were unable to determine the timeliness of the reporting of the values. However, our subsequent event review indicated that the valuations, once reporting were not materially affected.

RECOMMENDATION

We recommend that the Plan adopt a policy requiring documentation of the tracking of the timeliness of reporting of alternative investment value updates. Procedures implemented should also include measures to address delinquent reporting.

MANAGEMENT'S RESPONSE:

Not Available

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
DECEMBER 31, 2010

STATUS OF PRIOR YEAR FINDINGS

<u>Finding No.</u>	<u>Summary of Condition</u>	<u>Resolved</u>	<u>Unresolved</u>
09-01	Plan's management of the risks presented by alternative investments not adequate		X
09-02	Alternative investment valuation reports delinquent		X
09-03	The Plan's evaluation of custodial credit risk was not adequate	X	
09-04	Changes in alternative investment liquidity not adequately Monitored	X	

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2010

Section I – Summary of Auditor's Results

Financial Statements

An unqualified opinion was issued on the financial statements of the auditee.

Internal Control Over Financial Reporting:

Material weakness(es) identified? yes no

Significant deficiency(s) identified

not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards (Not Applicable)

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(s) identified

not considered to be material weaknesses? yes no

Any audit findings disclosed that are required to be

Reported in accordance with Circular

A-133, Section 510(a)? yes no

CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM



MITCHELL J. LANDRIEU
MAYOR

BOARD OF TRUSTEES:
Jerome Davis, Chairman
Lisa M. Hudson, Vice-Chairperson
Norman S. Poster, Treasurer
Dr. Edgar L. Chase, III, Trustee
Lynne Schackai, Trustee

Jesse Evans, Jr., Manager

August 2, 2011

Luther C. Speight, III
Luther C. Speight & Company
1100 Poydras Street, Suite 2900
New Orleans, LA 70163

Re: City of New Orleans Employees' Retirement System
Financial Statements – Year ending December 31, 2010

Dear Mr. Speight:

The following is our Management Response to findings identified during your audit of the financial statements of the City of New Orleans Employees' Retirement System.

Finding (10-01): Plan's Management of the Risks Presented by Alternative Investments Not Adequate.

CONDITION

The Plan reported portfolio values for alternative investments of \$51.3 million as of December 31, 2010. This reported value represents 15.5% of the entire portfolio market value at year-end. The investments represented a variety of investment strategies, however the underlying securities are not in the custody of the Plan's trustee financial institution. In addition the market valuations for these securities are not based upon published values. Accordingly the Plan's investments in the alternative category bear a higher risk.

Furthermore, a survey of defined benefit plans recently published by the U. S. General Accounting Office (GAO) indicated that defined benefit plans within the United States as a universe reflected exposure to alternative investments averaging 4% to 5%. In addition, of all the Plans surveyed of comparable size to MPERS, only 16% of those plans invested in alternative investments. Considering the GAO survey results and the Plan's present exposure to alternative investments of 15% as of December 31, 2010, it appears the Plan's portfolio risk profile is within the higher-end of its peer group as it relates to Alternative investments.

Our examination disclosed that the Plan's portfolio included 22 investments with fund managers in the alternative strategies. We further noted however that little or no qualitative or comparative analysis had been performed or documented related to the audit reports received and their bearing on the valuations placed on the Plan's investments by the respective managers.

CAUSE

The Plan did not have procedures or staffing designated to perform the detailed analysis of the independent audit reports and relate the analysis to the values reported by the alternative fund managers.

EFFECT

The lack of qualitative or comparative analysis of the independent audit reports and the accompanying financial statements does not reduce the risk that the valuations reported by the alternative managers may not be reduced to an acceptable level. The Plan's ability to fulfill its fiduciary responsibility related to management of the risks could be adversely impacted.

RECOMMENDATION

We recommend that the Plan update its procedures related to the receipt and review of the independent audit reports from the alternative investment managers to include qualitative and comparative analysis of investment's financial position and results of operations and cashflows and other relevant financial and market related data.

RESPONSE

The alternative investments held by the Plan that are on the Morgan Stanley Smith Barney platform undergo both a qualitative and comparative analysis to ensure accurate valuations and subsequent reporting of all investment positions. This includes not only our alternative investments but our traditional investments as well. The Board is considering making all future alternative investments selections from the vetted Morgan Stanley Smith Barney platform. If the Board moves to ratify this consideration, this language will be added to the Plan's Investment Policy to require the alternative investment selections to be made from the vetted platform of the current Investment Consultant. Currently the Plan's investment contracts with each investment manager documents the manager's commitment to the retention of external auditors, registered custodians and other specific performance reviews to ensure accurate valuations.

FINDING (10-02): PLAN'S ALTERNATIVE INVESTMENT VALUATION REPORTING WAS DELINQUENT.

CONDITION

The Plan's alternative investment valuations are reported by the respective fund manager to the Plan's custodian financial institution for inclusion in the investment trust statement reporting. We reviewed the alternative investment valuation reporting and review procedures and noted that the procedures and controls in place did not include documentation of the tracking and timeliness of valuation updates by the fund managers.

Our examination showed that of the Plan's 27 alternative managers, 20 were scheduled to update investment values on a monthly basis while the remaining were scheduled for quarterly updates. Documentation indicating the most recent valuation dates was not on file.

CAUSE

The Plan's policies and procedures did not require documentation of the tracking of the timeliness of updated investment values reported by the alternative managers.

EFFECT

Since the alternative investment values are not publically available, delinquent reporting of those estimated values by the respective managers could allow adverse changes affecting the investment valuations not to be reported to or acknowledged by the Plan's staff and Board on a timely basis. We were unable to determine the timeliness of the reporting of the values. However, our subsequent event review indicated that the valuations, once reporting were not materially affected.

RECOMMENDATION

We recommend that the Plan adopt a policy requiring documentation of the tracking of the timeliness of reporting of alternative investment value updates. Procedures implemented should also include measures to address delinquent reporting.

RESPONSE

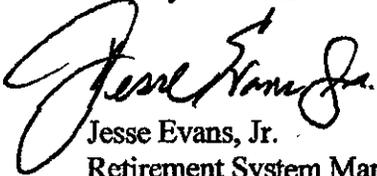
The timelines of statement delivery contracted by our alternative investment managers and JP Morgan's statement delivery policies are in conflict. JP Morgan's policy is to print all statements for the previous month after the 10th business day of the following month. Many of the alternative investment statements are not received until the 20th of the following month and in some cases later. There will always be a lag in reporting with alternative investments. The Plan is in the process of issuing a RFP for bank custody services. One of the requirements for all respondents to the RFP is the inclusion of the ability to track the receipt and subsequent posting of third-party statements for all assets held away. The report generated from this service must include the name of the account, our due date and the date the custody bank received and posted the statement to our account.

The above responses complete the Management Response to the audit findings for the 2010 audit of the financial statements of the City of New Orleans Employees' Retirement System.

Sincerely,

Dr. Edgar L. Chase, III

Chairman, Board of Trustees
City of New Orleans
Employees' Retirement System

A handwritten signature in black ink, appearing to read "Jesse Evans, Jr.", written in a cursive style.

Jesse Evans, Jr.
Retirement System Manager
By Direction